IASB Discussion Forum: Disclosures in Financial Reporting – 28 January 2013

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Agenda

- What is the “disclosure problem”? 
- What have we done about it? 
- What else can be done?
What is the “disclosure problem”?

- Risk that financial statements and annual reports have become a financial compliance exercise
- Pressure from regulators is always to add more, rather than to remove, disclosure
- “Back half” of annual reports are little used
- Management uses other communication channels to “tell the story”, particularly investor relations slides

One result:-

- Non GAAP measures
What is the “disclosure problem”?

- Poor organisation/structure of reports
- Duplication of disclosures
- Poorly targeted requirements that elicit boilerplate
- Disclosure not focussed on key issues, emerging issues and what has changed
- Disclosure not sufficiently responsive to changing environment

Result:-

Too much disclosure that is not relevant making it difficult for
- Preparers to communicate through the reports
- Users to identify what is important to their decision making
Where does the problem occur?

- Annual report as a whole - not just audited financial statements
- Interim reports – more and more specific requirements being added
- Other reports – eg Pillar 3 reports for banks
What are some of the causes?

- Requirements themselves
- Preparer behaviours
- Auditor behaviours
- Regulator behaviours
- Lack of involvement of users in the process
The problem for HSBC
What actions have we taken so far?

Since 2007, HSBC has kept the structure, format and presentation and contents of the Annual Report under review and improvement:

Earlier efforts concentrated more on the appearance of the document

- Structural changes and additional navigation, including the use of colour
- Word count limitations to encourage succinct drafting
- US specific requirements removed from main Annual Report
- Group’s writing style changed from the third person to the first person
What actions have we taken so far?

Later efforts have also concentrated on the nature of the messaging:

- Efforts made to join the document more effectively and ensure only significant (and mandatory) data is included, with minimum duplication
- Introduction of the idea of “top and emerging risks”
- Focus on what has changed: describe what has happened in the market, what actions management has taken and how this has been reflected in the balance sheet and income statement
- Risk appendices created to hold information that does not change
- Materiality of disclosures critically reviewed and some removed/reduced

These changes have allowed additional disclosure to be accommodated, eg market turmoil in 2008 or forbearance and sovereign debt in 2011
What else can be done?

- Greater use permitted of websites for “standing data”
- Greater alignment between different regulatory bodies and their perspectives
- Establishing an effective forum for meaningful stakeholder and preparer engagement
- Further development of best practice initiatives such as ‘Cutting Clutter’, Financial Reporting Lab, IIRC
- Refreshing the fundamental purpose of corporate reporting
- EDTF
What else can be done?

Enhancing The Risk Disclosures Of Banks

Report of the Enhanced Disclosure Task Force

29 October 2012
Main areas of investor concern

- Difficulty in understanding a bank’s business model and how it relates to its risk measures and financial statements
- Density and scattered location of risk disclosures
- Lack of timely reporting of both risk and financial information
- Basel 2 capital and risk-weighted assets
- Liquid assets, availability of funding and level of unencumbered assets
- Lack of granular disclosures on credit exposures
- Effect of forbearance activities on reported impaired loans
The fundamental principles

1. Clear, balanced and understandable
2. Comprehensive, covering all of the key activities and risks
3. Present relevant information
4. Reflect how risk is managed
5. Consistency over time
6. Comparable among banks
7. Provided on a timely basis
Summary of 32 recommendations

- General
- Risk governance and risk management strategies/
- Business model
- Capital adequacy and RWAs
- Liquidity
- Funding
- Market risk
- Credit risk
- Other risks
Main recommendations

1. Present all related risk information together

7. Describe the key risks that arise from the bank’s business models, the bank’s risk appetite in the context of its business models and how the bank manages such risks (Figure 1)

11/16. Present flow statements on regulatory capital and RWAs (Figure 2)

14/15. Provide information on RWA density and model parameters for main portfolios (Figure 3)

18. Provide a quantified analysis of liquid assets
Main recommendations (continued)

19. Provide a summary of encumbered and unencumbered assets (Figure 4)

22. Provide high level map of main market risk measures to the balance sheet (Figure 5)

24. Provide information on risk of loss outside main reported market risk measures

26. Provide a quantitative summary of aggregate credit-risk exposures that reconciles to the balance sheet, including detailed tables for both retail and corporate portfolios that segments the portfolio by relevant factors

27/28. Describe forbearance, impaired loan definitions and policies together with quantified movement analysis